



STATE SENATE

# INDEPENDENT AUDITORS' REPORT



DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

The Honorable Janet Napolitano, Governor  
State of Arizona

The Honorable Ken Bennett, President  
Arizona State Senate

The Honorable Franklin L. "Jake" Flake, Speaker  
Arizona House of Representatives

The Honorable Charles E. Jones, Chief Justice  
Arizona Supreme Court

We have audited the accompanying financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Arizona as of and for the year ended June 30, 2002, as listed in the table of contents, which collectively comprise the State's basic financial statements. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain departments and the component units, which account for the following percentages of the assets and revenues of the opinion units affected.

Opinion Unit/Department	Assets	Revenues
<u>Government-Wide Statements</u>		
Governmental activities:		
Arizona Health Care Cost Containment System	2.27%	15.57%
Department of Transportation	68.85%	17.10%
Business-type activities:		
Lottery Department	.89%	13.79%
Arizona Health Care Cost Containment System	.18%	.99%
Department of Transportation	5.27%	.79%

Opinion Unit/Department	Assets	Revenues
Component Units:		
Arizona Power Authority	2.21%	3.51%
State Compensation Fund	77.43%	53.84%
University Medical Center	6.24%	37.48%
Water Infrastructure Finance Authority	14.12%	5.17%
<u>Fund Statements</u>		
General Fund:		
Arizona Health Care Cost Containment System	11.15%	18.51%
Transportation and Aviation Fund:		
Department of Transportation	100.00%	100.00%
Lottery Fund:		
Lottery Department	100.00%	100.00%
Aggregate Remaining Fund Information:		
Arizona Health Care Cost Containment System	0.22%	3.98%
Department of Transportation	1.17%	6.69%
Arizona State Retirement System	59.71%	32.66%
Public Safety Personnel Retirement System	13.18%	12.55%
Corrections Officer Retirement Plan	2.12%	1.50%
Elected Officials' Retirement Plan	0.98%	.96%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Public Safety Personnel Retirement System, Elected Officials' Retirement Plan, and Corrections Officer Retirement Plan, included in the Fiduciary statements; and the University Medical Center, Arizona Power Authority, and State Compensation Fund, included in the Component Units statements were not audited by the other auditors in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Arizona as of June 30, 2002, and the changes in financial position and cash flows, where applicable, of those activities, units, and funds for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Notes 1 and 8, the State adopted the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities* for the year ended June 30, 2002, to implement a new financial reporting model.

Management's Discussion and Analysis on pages 16 through 27, the Budgetary Comparison Schedules on pages 106 through 130, the Infrastructure Assets information on pages 131 through 135, and the Schedule of Agent Retirement Plans' Funding Progress on page 136, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we and the other auditors, did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements of the activities, component units, and funds that collectively comprise the State's basic financial statements. The combining and individual fund statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The information included in the introductory and statistical sections listed in the table of contents has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on such information.

In accordance with *Government Auditing Standards*, we will also issue our report on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants at a future date. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Debbie Davenport  
Auditor General

February 11, 2003